RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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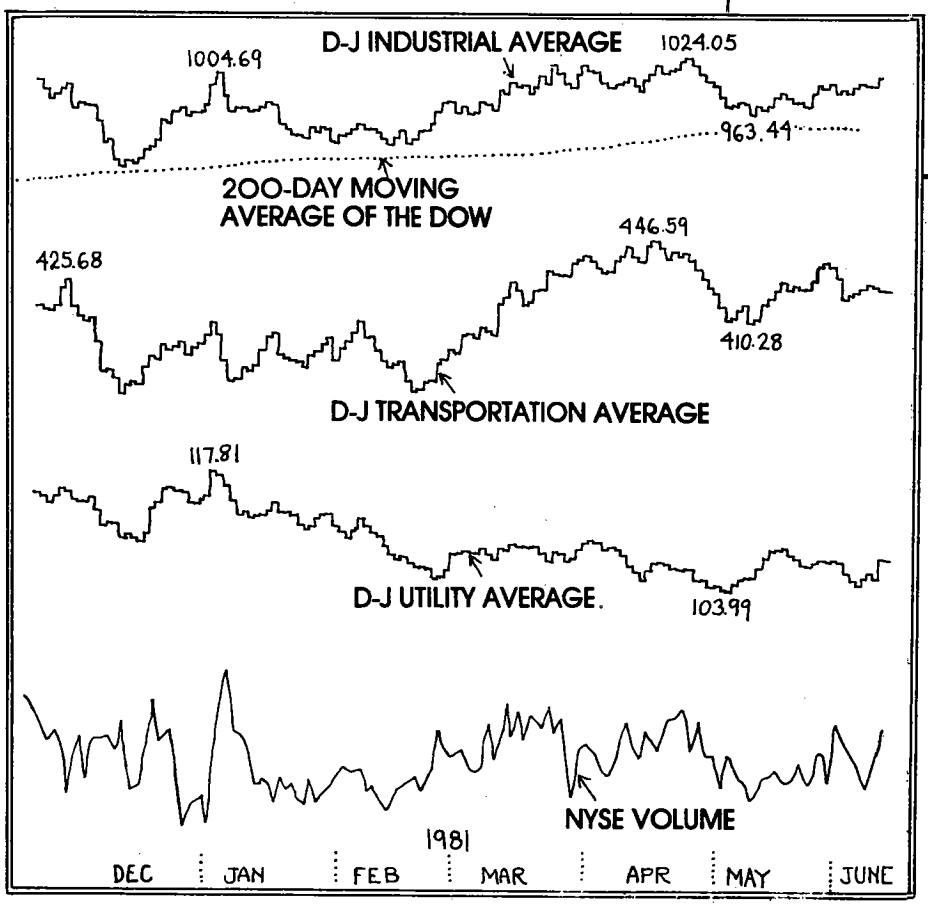
**June 17, 1981** **LETTER 811**

June 5, DJIA 993.79; PTI 1487; A-D Ratio –16.98
June 12, DJIA 1006.28; PTI 1502; A-D Ratio –16.41

**THE PICTURE:** While soothsayers, economists and market analysts have been writing of the dangers of inflation, I have been warning about illiquidity, debt, rising interest rates and the dangers of dis-inflation – and even deflation. In Letter 809 (page 2) I included a chart of the CRB Commodity Futures Index, showing that the composite commodity price structure had cracked a five-year rising trend.

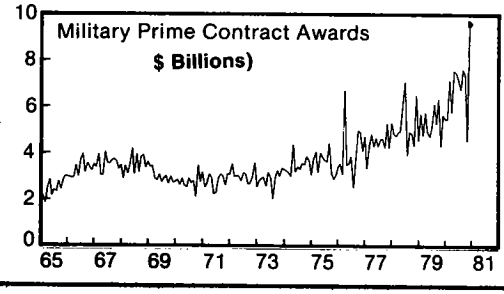
The story continues to unfold (should I say unravel). Cattle are down 23% from their 1979 high, corn down 19% from its 1980 high, cotton down 13% from the 1980 high, soybeans down 30% from the 1980 high, wheat down 24% from the 1980 high, lumber down 53% from its 1979 high, coffee (would you believe) less than 1/3 of its 1979 peak, sugar now 1/3 of its 1980 peak, copper a little more than half its 1979 high, platinum down to less than half its 1979 peak, silver a mere 20% off its 1980 high, and since early 1981 all the world's currencies smashed against the dollar (which is being bolstered by record high interest rates). To put it briefly, the money lost by commodity producers (and yes, commodity traders) over the last year has to be measured in the tens of billions of dollars.

The implications of the commodity collapse are dismal. The "less-developed countries " (LDC's) depend on the sale of raw materials for their hard cash. With the price of their commodities tumbling, most LDC's will be squeezed, while many will have to default on their loans. Worse, social upheavals are sure to follow.




**FRONT PAGE COMMENT:** The biggest story of the year (and I've said this before) is MONEY. Money is now the dog and EVERYTHING else is the tail. The cost of money has now become the number one subject on Wall Street and Main Street. But few, pitifully few, understand what's really happening. Thousands crowd the D-J tape each Friday to scrutinize the latest money supply figures. To which I say, "Forget it. The story isn't being told in the money supply figures, it's being told in the DEBT figures. Debts and deficits are eating America up alive, and the Reagan Administration is not halting the process."

Case in point: military spending is slated to expand between 1980 and 1984 at the phenomenal rate of 17% a year! This monthly chart (courtesy of *Salomon Bros.*) illustrates the explosive growth of military contract awards. States Dr. Henry Kaufman, *"The full impact (of military spending) may not be felt for two years or longer."* But the money market sees the express train coming down the track, and my predicition is that with military spending on full steam by 1984, we are heading into the GREATEST INTEREST RATE SPIKE the modern world has ever seen. I'll say it again, the overriding big story for the 1980's is going to be money and interest rates. The story will be reported here as we move along.



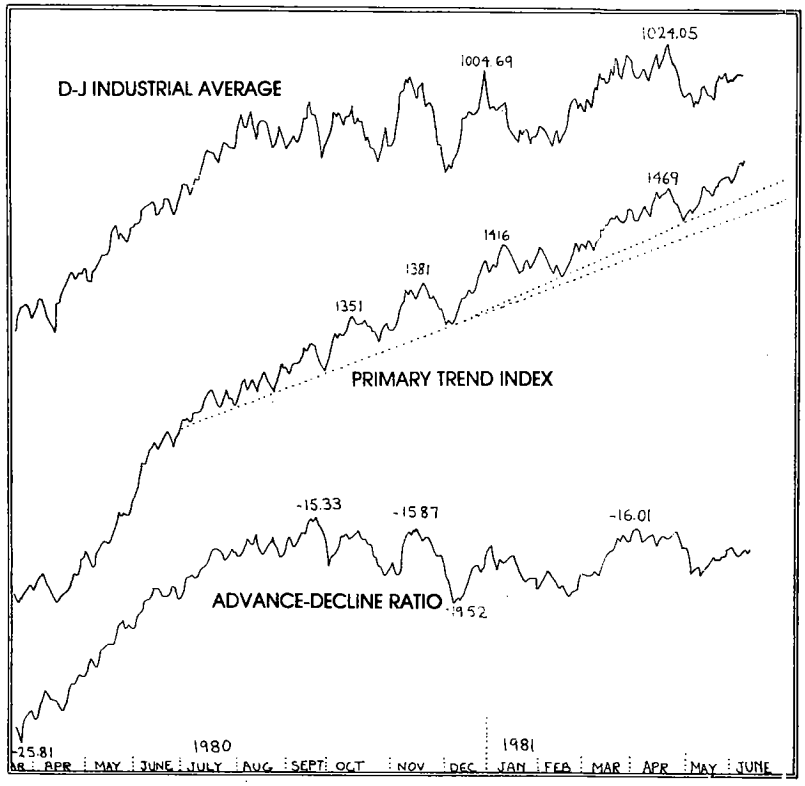

But the big question I ask myself is this: "Now that the whole world is in hock, loaned up, and ready for more inflation, now that everyone is positioned for the "inflation forever" scenario (everyone but my subscribers, that is), is this the time for the big cross-up? Is dis-inflation and then deflation about to cast its shadow across the face of the earth?

**THE MARKET:** As subscribers surely know by now, I write these reports on TWO LEVELS. The first level includes my own thoughts, opinions and observations. These may be bullish or bearish, happy or gloomy at any given time. I include my own opinions because I believe they are correct. At worst, I feel my opinions provide good background material. That's the first level on which I write. The second level has to do with the market action itself, and on this level I make every effort to be objective, unbiased and unemotional.

"How am I supposed to handle these two levels?" you ask. Unhesitatingly I answer, "Ponder the opinions. Kick them around, debate them. But ACT on the market work. Opinion, even if correct, will not help you in market timing, and many of my best observations are advanced far ahead (sometimes too far ahead) of the actual event. But the market date has to do with timing, and timing is what makes or breaks you in this business. Opinions give you an overall framework and philosophy from which to operate. Market action tells you when.

According to Dow Theory, the primary trend of the market remains bullish. The bull market would be reconfirmed by Industrials rallying above 1024.05 and Transports above 446.59. Conversely, a bear market would be signaled if Industrials drop below 963.44 along with a Transport decline below 410.28.

As far as classical technical analysis is concerned, there is plenty to fret over, and I've gone into a good deal of it. I've stated that the 233-day market cycle is now in its bear phase, and this bear phase is slated to end in late-July or early-August. The market does not seem impressed. I've noted that the advance-decline line for the NYSE is lagging badly. But the market has not fallen apart in the face of this dramatic divergence. I've pointed out that the Dow and its own A-D line are in the throes of a divergence that has lasted an unprecedented10 months. Even this technical aberration has failed to tumble the market.




The fact is that this market has laughed at (should I say sneered at) some of the leading (bearish) analysts in the nation, it has danced on the book of technical danger signals. What's happened? What does it mean? Is there a technical device anywhere that can still be trusted?

As far as I'm concerned, my Primary Trend Index has done (and continues to do) a superb job of monitoring this market. Over and over again I thank my lucky stars for whatever fortuitous set of circumstances led me to discover the PTI back in 1971.

Question: Russell, I know you invented the PTI back in '71, and I know that you have computed it daily for the last decade. What were you thinking about when you invented the PTI, and why have you done all this work on your index?

Answer: Back in 1958 when I started this service, technical analysis was almost unknown on Wall Street. Moreover, there was a great deal of prejudice against its use. No national publication at the time carried technical work, and even today the WSJ refuses to carry investment advisory advertising. I wrote my first article for *Barron's* in 1958 (an article based on Dow Theory and the technical approach), and when published that piece created a minor sensation. I followed the article with 17 additional *Barron's* pieces on Dow Theory and the various technical approaches to the market.

By the mid and late-1960's, however, I saw that technical analysis was becoming the wave of the future. I based this on two observations: (1) fundamental analysis was useless for forecasting stock market trends, and (2) an increasing number of analysts and investors realized this and were turning to technical market studies.

Noting the trend towards technical analysis, I reasoned that in due time all the available (available to the public) technical indicators and devices had to run into trouble. The reason for this is that Wall Street wears out (or discredits) every forecasting device as soon as that device gathers a following. Thus I knew that one by one, the moving average studies, the confidence index, the odd lots, the A-D studies, the short interest studies, the most-active studies, the momentum studies, all of these must sooner or later mal-function. What I wanted was my own technical device, an index that could not be followed by other analysts or by the public, and an indicator that (by its very construction) HAD to reflect the build-up (or deterioration) of technical strength in the market. The result was the Primary Trend Index, an instrument that is now reviewed in each issue of these reports.

Question: I note that you have only been writing in detail about the PTI over the past three or four years. If you had the PTI since 1971, why have you waited so long?

Answer: I wanted real time on the PTI before electing to emphasize it. I first became tremendously impressed with PTI during the 1973-74 bear market. During those fateful years, the PTI never stopped going down. This persistent decline kept me solidly bearish throughout the disastrous two-year collapse. I was never whip-sawed, I never changed my opinion about the bear market despite many impressive rallies. During the 1973-74 period, the PTI performed admirably, and I began to appreciate its value.

So much for history. Now to the above daily chart. At the bottom of the graph we see a sluggish A-D ratio (the A-D is a proxy for the ENTIRE NYSE). Since September 19, 1980, the A-D has been tracing out a sideways path with a bias to the downside. Judging by past technical history, this kind of divergent action (i.e., a declining A-D with a rising Dow) should have spelled "doom" for the market.

Here again, the PTI has been telling the story. With a stubborness that borders on the incredible, the PTI has been climbing, holding persistently above its ascending trendline. This means that the pressure is on the upside for the market, and it means that the

technical foundation of the market remains bullish. As I have said so many times before, the market (despite the dreams and desires of the bears) will not, can not, fall apart while the PTI continues to probe into new high territory.

Last week I drew a new and steeper (more sensitive) trendline on the PTI, one that began from the December 16 low. At present the PTI is 25 points above the steeper trendline and 45 points above the longer, shallower (primary) trendline. So that's all I can say about the PTI here – simply that it remains bullish. Stay in harmony with the PTI, and you'll be on the profit side of the market. Ignore the PTI if you wish, but please don't go against it. For if you fight it you've picked a sure way to go broke. Ten years of PTI history confirms that statement.

**INVESTMENT POSITION:** The little bull will appear in this column whenever the Dow Theory is bullish, confirmed by a bullish PTI. When the converse is true, a little bear will appear. At present the bull continues to rule the stock market. My position has been that subscribers should hold the bulk of their funds in T-bills, which are still yielding bargain rates and a real return of more than 5% over the inflation rate. While the little bull graces this page, positions are also warranted in one or more of the better no-load mutual funds such as *Dreyfuss Number Nine, American Investors, Mutual Shares and Guardian Mutual Fund.*

Why funds instead of individual stock picks? First, no commissions on the funds. Secondly, you are more likely to make money with a good fund then with a selection of 5 or 10 stocks. Why? Because at this stage of the game, the fund managers are smarter than you are. Comes a NEW bull market, and I'll provide a stock list (as I did in late-1974). For now, forego the fascination of being a stock-picking genius and stay with no-load funds.

**MONEY RATES:** Picking the top for interest rates ("the peak, the peak!") has become a national pastime. Every damn fool and his brother is suddenly able to spot the top. If we've seen the top, it'll be one of the few times in history that 90% of the economists and analysts in the nation have been correct. Me, I think this is a pause in a broad rise leading to an interest rate spike. To put it another way, I don't think we've seen the trouble yet.

**THINGS TO COME:** You or your bank or your pension fund buy a long-term Government bond yielding (at current prices) near 14%. The bonds cost you $100,000. In just over 10 years you'll get back a total (at 14% compound interest) of $400,000. And that's what's actually happening today. But wait – *where is the money coming from* to pay you back $4 in 1991 for every $1 you put up today? At 14% compounded, it's clear that either (1) the money supply must grow massively, or (2) the economy is going to be squeezed unmercifully to pay debts that have been incurred, or (3) the nation will face bankruptcy as the compounding at higher and higher rates literally eats the financial markets alive.

This problem, the compounding of the debts, is to my mind the greatest financial danger facing the nation. What's the solution? How can we survive this coming statistical disaster? The answer is either (a) inflate at ever-higher rates so that ever-higher compound-interest debts can be paid off, or (2) halt inflation, rachet down the money supply, balance the budget, and take the depression which will ensue.

In the first case, the hyper-inflationary path will wreck the country and all its financial markets. I do not think this nation will follow the hyper-inflation path because I believe that path is now politically impossible. The American people are now quite sophisticated regarding inflation (increasingly so with every passing year), and they will not stand for it.

As for the second case, the case of "dis-inflation" or (later) deflation, I personally believe we are heading for this path. We may not get there quickly, but I believe within a few years we will be there. Why do I say that? I say it because sensitive and (now) highly sophisticated money markets will not stand for a POLICY of hyper-inflation.

Already it is becoming clear to the Reagan Administration that the markets do not believe that the current programs will significantly cut the rate of inflation. The sinking money markets, the record highs in long-term interest rates, the collapse of the mortgage markets, all these are telling the Administration "loud and clear" that their well-meaning cuts in the RATE of rising Federal spending are *not* going to do the job.

This is the reason that Mr. Stockman decided to try to cut another $5 billion in the last five months of 1981. It also explains why this Administration is now turning to the Social Security System for new cuts (even if they are just token cuts).

I've said this before, and I will repeat it. Cutting the *rate* of rising spending is NOT going to halt inflation. Congressional talk and Presidential scoldings are not going to halt inflation. If inflation is to be halted, the limbs of inflation will have to be amputated and the body will have to feel the pain. The limbs of inflation are where the big spending is – Social Security, military, welfare. Social Security will have to be revised or cut back, the draft will have to be instituted, welfare recipients will have to be pruned, military waste will have to be savagely pared. In short, the work of slicing our Government monster down to size has *just begun.* The big cuts have not yet even been HINTED AT. But THEY ARE COMING, I firmly believe that. They are coming because the money markets are the dog and Washington is the tail, and the dog is sick, it is heaving, it is in the throes of a serious disease of rot and deterioration.

We as Americans (and as investors) are now watching the financial drama of the century. We are going to have to choose between the pain of lowered living standards and deflation – or hyper-inflation and finally collapse and a different system of Government (and perhaps the end of capitalism). The choice will soon be upon us.

Question: Russell, what makes you think that the US will not choose hyper-inflation?

Answer: I think we voted against hyper-inflation when we voted Carter out. Carter and his do-nothing posture represented the way to hyper-inflation. Reagan symbolizes for the other way – halt to the nonsense.

Question: What will happen to all this debt if inflation ends and dis-inflation or deflation come in?

Answer: The public is becoming sophisticated. They have piled their money into the money market funds because they need the income and because the funds offer fat returns. No longer can the savings institutions garner cheap money from a passive public. The picnic for the banks and S&L's is over, and with the picnic over, so is easy lending.

As far as outstanding debt is concerned, that debt is moving into

the new era, the era of liquidation and pay-off. This era is just beginning, and the situation is still hazy. Major changes are never recognized at the onset, but the new era is going to see a liquidation of bad debts, an accent on high quality investments and income, and a return to savings.

Initially, however, there is going to be a panic for cash. That panic will start when it becomes apparent (in the face of $5 trillion in US debt) that only the cash holders are going to survive. This gathering panic for cash is going to produce sky-high interest rates, and we are seeing just a bit of that now.

Then, as business turns down and as the liquidation of the weak hands runs its course, interest rates will come down – but they will come down only *after* a tremendous mass of the debt is cleared away.

Question: How is this debt going to be removed?

Answer: Some of it will be paid off, some will be refinanced, some will go the way of bankruptcy, some will be merged and some will have a moratorium placed on it (as Poland has over the past month).

Question: Russell, assuming you're right, how long will this whole liquidation process take?

Answer: That's a question I can't answer. A lot depends on how quickly the various Administrations move, how hard they fight the downturn, how much liquidation takes place within a given amount of time. I'm guessing that the whole thing will take place in stages. The first stage will be the recognition that the debt cannot be allowed to continue increasing, and this stage will be accompanied by rising interest rates. We have been in the stage for a year or so. The second stage will be the market's realization that disinflation is going to be bearish for stocks and most investments. We could be moving into that phase now (remember, commodities, metals, bonds have already been hit hard, with only stocks and real estate remaining near their highs). The final phase (which will probably be the longest) will be the actual liquidation phase for stocks as many companies and weak entities go into bankruptcy. This final phase will set the stage for the next major primary bull market.

Question: What's going to happen to the cities and the suburbs during all this trouble?

Answer: Strangely, we may well have a return to some kind of law and order. I firmly believe that the current unrest and lawlessness in this nation is rooted in a deterioration of our money, our buying power. When a man can't save, when he doesn't receive any real buying power for a day's work, when a man sweats for five months out of each year to pay a corrupt government in the form of taxes – he ceases to give a damn. That's what has happened in America over the past quarter century. But when people see retribution, when they see stupid or corrupt politicians thrown out of office, when they see mountains of debt cave in – I think it could have a sobering (even a healthy) effect on the psyches. What's needed is a moral rebirth in this nation plus a belief that a day's work will buy something comparable to the sweat involved. That could come with an end to inflation (even though the end is accompanied by collapse). Men know, they remember, that the darkest night gives way to a new day.

Question: Russell, you talk about the huge mass of military spending that is coming up. How will this affect the nation and the inflation-deflation figures?

Answer: On the face of it, the colossal military spending that is scheduled to occur should be highly inflationary. But remember, this military spending is coming at a time of record high interest rates and record levels of debt. Thus, the strain of military spending (which should hit a peak around 1984-85) will put unprecedented pressures on the money market. The force of the spending should be inflationary, but the strain on the money markets and on interest rates will be deflationary.

What we could see by 1983-84 is a split economy with only military related companies and personnel prospering while all other civilian industries and personnel are left out in the cold. My own view is this: the huge levels of military spending will strain the money markets to the limit, and the net effect of this strain will be hardships for most Americans. The interest rate spike resulting from the military spending plus the debt servicing will smash all other investments – only short-term money market instruments will weather the storm.

**NOTES & QUOTES:** This comic little article appeared in a local San Diego newspaper, the *Transcript.* Of course nobody has laid eyes on any of today's T-bills. The reason is that T-bills are now a bookkeeping entry of the US Treasury. The writer of this article threatens to follow up with a second article, entitled, *"Is there any gold in Fort Knox?"* My idea for a third article in the series, *"Does the US Treasury really exist?"*

### *Has Anybody Ever Actually Laid Eyes On a Treasury Bill?*

By HERBERT LOCKWOOD
*SAN DIEGO DAILY TRANSCRIPT Staff Writer*

After whole minutes of in-depth investigative probing worthy of Nero Wolfe, this reporter came up with a staggering fact that could blow the economic base of this nation to smithereens.

There is no such thing as a Treasury bill!

Gullible citizens firmly believe they're buying solid government securities and pour billions into Treasury coffers in return for nothing but untraceable receipts. The fact that they've also paid off in money, so far, cannot daunt this investigator.

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"Whom the gods would destroy, they first make mad." The truth of this old saying was underscored with the latest figures on world arms sales. Last year the world spent half a trillion dollars on killing machines. Since all money spent on defense and armaments is down the drain (it is not productive), one wonders how long this can go on without universal bankruptcy.

**STOCKHOLM, Sweden (UPI) – The world was fast approaching a spending figure of $1 million a minute on defense last year in its race for guns, influence and security, with the United States and the Soviet Union leading the way, the International Peace Research Institute (SIPRI) said today.**

**The record outlay of $500 billion also reflected the mounting appetite for weaponry and technology in the Third World, where around 40 armed conflicts have been fought in the last decade, SIPRI said in its annual report.**

**The Third World last year accounted for 16 percent of world military spending, or $80 billion, twice its share a decade ago. Middle East nations alone spent $38.4 billion on defense in 1980, the Stockholm-based group said.**

**The United States, the Soviet Union and France have led the industrial world's exports drives since 1977 but many developing nations, notably Israel, Brazil, South Africa and India are fast becoming producers of deadly weapons, the Stockholm-based institute said.**

**Third World arms exports, currently only 2 to 3 percent of the world market, will grow because they are cheaply produced, it said.**

* *

The public, over the last five years, has learned a lot about the money markets and interest rates. *Time Magazine* (June 8), in fact, featured *"The Savings Revolution"* on their cover, and the cover illustration showed people looking up at all sorts of interest rates such as 16.1% T-bills, 16.3% money market funds, 17.8% commercial paper. When *Time* knows it, everyone knows it; the era of bargain money is OVER.

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From our "Money Talks" Dept., this news clip should be of more than passing interest.

**The Dallas Morning News**

**WASHINGTON — Less than six months after release of the 52 U.S. Embassy hostages, scores of U.S. companies have resumed open trade with Iran and have so far sold it more than $100 million in goods.**

**Most of the recorded trade so far has been grain, but it includes manufactured goods. In addition, according to federal officials, some U.S. companies have sought permission from the State Department to sell arms to Iran, and others have asked the Commerce Department for licenses to export riot-control equipment, computer technology and electronic devices.**

* *

People ask me why I live in La Jolla (a suburb of San Diego). Here's the answer (courtesy of *Personal Finance*, 901 N. Wash. St., Alexandria, VA 22314). Oh yes, do you want to start a business here? Easy, open a great restaurant; they don't have any in San Diego, and I mean they don't have even one!

Forty-seven experts — city planners, architects, and university professors — were recently asked by *Next* magazine (708 Third Ave., New York 10017, $12 for six issues) to rank the 55 largest U.S. cities on their future prospects. Each was rated separately on attractiveness, management quality, business climate, employment prospects, and so on, but the overall ratings, combining the rankings by category, should change the usual preconceptions of some cities. ¶Overall, the best, those whose future the panel was most optimistic about, are: San Diego, Portland, Seattle, Minneapolis, Boston, Baltimore, Madison (WI), Santa Fe, San Francisco, Cincinnati, Kansas City, Pittsburgh and Milwaukee. The worst were: Akron, Buffalo, Dayton, Detroit, Houston, Atlanta, Phoenix, Los Angeles, Cleveland, Dallas, Gary, Scranton, Newark and Miami. ¶Most large Sunbelt cities did not rank high in the ratings because the panel anticipated problems of overcrowding, pollution, inadequate transportation, unemployment, unbalanced budgets, social conflict and energy shortages. Extensive renovation efforts in many older, northern cities have greatly improved their prospects.

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Daddy, what happens when the Socialists are voted in?
Why son, they re-distribute prosperity to the masses.
How do they do that, dad?
Easy, they take it from the people who make money, and give it to the people who don't. Here's the proof, son .....

**PARIS — In its first group of major policy decisions, President Francois Mitterrand's new Socialist government yesterday raised France's minimum wage 10 percent, sharply increased social security benefits and told banks, oil companies and the rich they will be taxed more next year to help pay for its generosity.**

How big is the bond market? Here's a clue: Saloman Bros. has 160 bond traders. These traders handle on average roughly $4 billion (that's billion) worth of bonds every working day!

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Hypocracy Dept: Most of the world is happy about the Israeli bombing out of Iraq's atomic bomb capacity. The Arab protests were all for show, and Arabs from Iran to the Saudi's to Egypt are now breathing much easier without any atomic bomb capacity. The US punished Israel by refusing to ship the four fighter planes that were promised. And that's the end of that.

* *

From our "Would You Believe" Dept: Restauranteur-showman Warner LeRoy (he owns Maxwell's Plum in NYC) is now going to send picnic trucks through Central Park (it cost $30,000 to paint his first picnic truck with fantastic flowers). Price for a picnic box lunch of fancy eats: $7.95, with a $4.25 special for kids. Only in NY!

* *

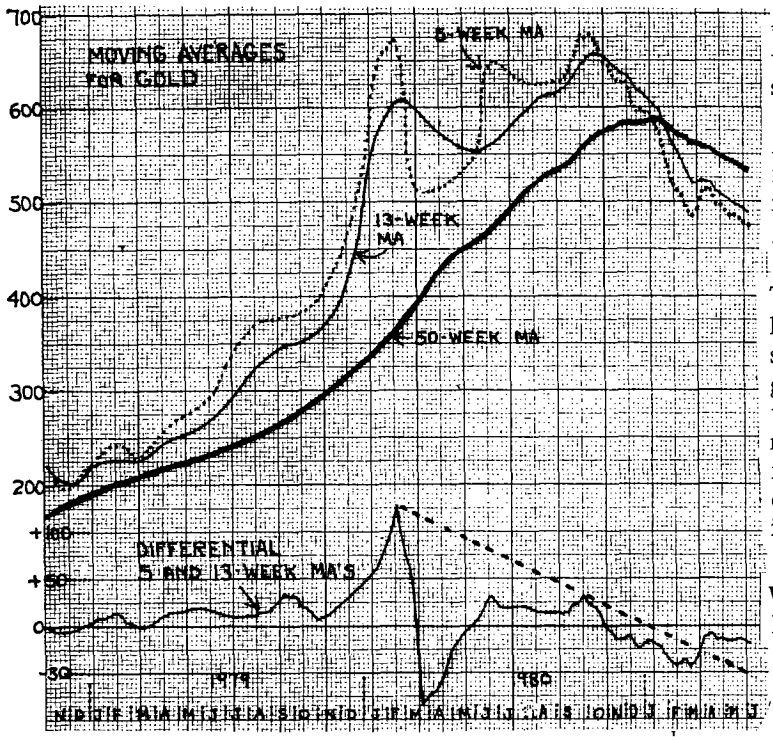
My old friend, Eliot Janeway, often scores bullseyes, and he's most apt to be right when he disagrees with everybody else (like now!). Janeway sees a new "boomflation" coming to the US, and he says *"US real estate, the gold markets and the 'high tech' US defense stocks will lead it. If foreigners regard US real estate as cheap while the dollar is still expensive, they will shrug off still higher prices for US property as bargains when the dollar becomes cheap for them again – especially priced against gold."*

Janeway is betting that a new gold boom is ahead of us, while he sees trouble for most US stocks and the whole US money market. Most of the world, says Janeway, is going to be shocked when they see *"how big the Reagan arms build-up will be....."* (Janeway 15 E. 80th St., NYC 10021).

**GOLD:** The futures market in gold is always interesting, but I don't use it in drawing my conclusions about gold. Why? The reason is that the futures market is too emotional, it's highly leveraged, and it's chock full of amateur crap-shooting traders. On June 5 the spot contract plunged to 451, but the London fix (which is what I go by) never broke 460. That impressed me, particularly in an atmosphere where everyone is bearish, bored or disgusted with gold.

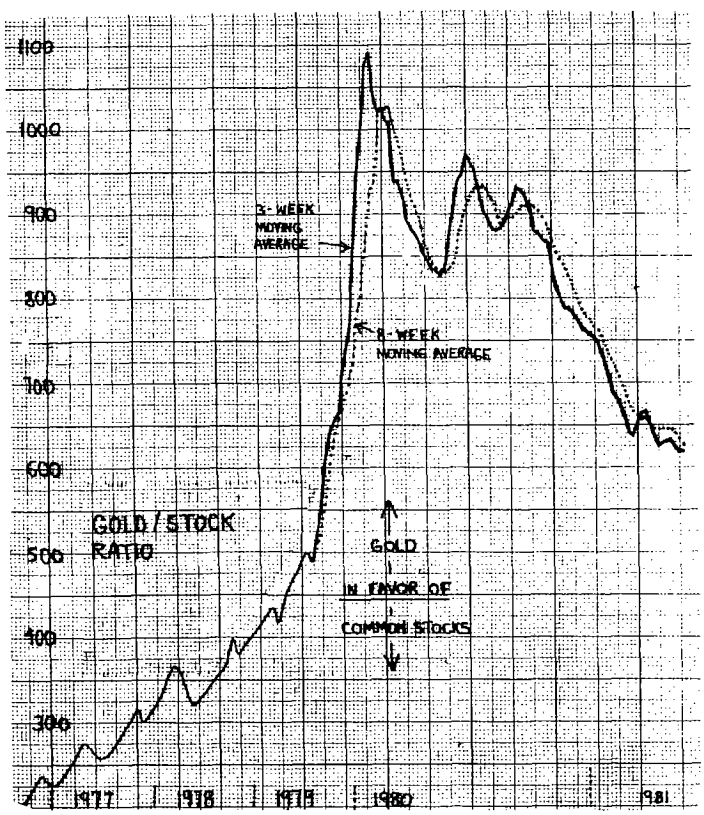
From its 720 high last September, gold slid to 457 on March 5. Gold broke above its September to March (declining) trendline in late-March. Gold then dropped back to 460, and it has been holding above 460 for the past few days. A second (shallower) declining trendline will be broken if gold can rally to 480 (spot). I would consider a rally to 480 as quite bullish for gold, and a move over 500 would strongly suggest to me that gold was in the process of completing a bottom. Gold above 550 would mean that the base was COMPLETED.

Now turn to the chart of the three moving averages (MA's) of gold. All three are still in the bearish position. The 5-week MA is at 472, the 13-week is at 485 and the 50-week MA (primary MA) is at 532. But the situation could, it just could, be changing for the better. At the bottom of the chart is the differential line, the differential between the 5-week and the 13-week MA's. Note that this differential line has broken ABOVE its declining trendline. This could be an early indication that the 5-week MA is preparing to cross above the 13-week MA. At any rate, it IS a sign that the momentum of the decline in the moving averages is diminishing, a necessary prerequisite to a bullish crossing.




Spot gold holding above 475 (above the 5-week MA) would be a plus for gold, and of course spot above 485 (above the 13-week MA) would be a double plus. So let's see what happens next.

Each week I run the ratio of gold to common stocks. I used the NYSE Index as my proxy for common stocks. Then I put this ratio on a 3-week and and 8-week moving average (MA). When the 3-week MA (heavy line) breaks above the 8-week MA (dotted line) that action signals that gold is acting better than the stock market.




As you can see on the chart, gold was the better performer from 1977 to early-1980. Since then (with a few exceptional months) the action has been in favor of common stocks over gold. And that's the situation as this is written.

The real money will be made in gold only AFTER the black line turns up and crosses above the dotted line. That will be the signal that tells us that money is going out of stocks and into gold. It hasn't happened yet, which is another way of saying that the action (relative performance) is still in favor of common stocks. So if you're doing anything but bottom-fishing for gold, take it easy, relax. The big gold move may be in the process of forming, it may be a month off – or a year off, but it isn't here yet.

Well after all that, we should be ready (courtesy of the *New Yorker*) for a gold cartoon.

*"Must we start every day with the morning gold fixing in London?"*

**LATE NOTES:** I suggest that all subscribers watch the twin highs of 81.02 for the NYSE Index and 140.52 for the Standard & Poor's 500. These were the last peaks for the big Composite stock averages, and they were registered last November 28. The fact is that it has been 7 months since those twin highs, and despite lots of positive action, despite month after month of new highs in the PTI, the NYSE Index and the S&P 500 have not yet broken out.

In 36 years of watching markets, I'd say the action of the past 7 months is about as strange as anything I've seen. The key to this stock market, in my opinion, may well hinge on the ability (or inability) of the NYSE Index and the S&P 500 to "bust through" Last Week the market received help from the utilities, which put on a strong performance, aided by declining oil prices (utilities are big fuel users).

Meanwhile, the steadily rising PTI means increasing margin calls for the bears (the shorts). As I've said so many times, you don't have to be in every market move, but to be on the *wrong side* of a market move is always disastrous.

The PTI is even being watched in S.Africa now. Tony Henfrey (a leading gold analyst) wired on June 12, "For what it's worth, there is a point & figure count for your PTI of 1484." You're right on, Tony, but the PTI has already exceeded that count and now stands at 1502!

**NEXT MAILING: July 1, 1981**